

**CASS COUNTY MEMORIAL HOSPITAL**  
**INDEPENDENT AUDITOR'S REPORT**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

# CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2012

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Steve Sisler, Chairman	Anita, Iowa	2012
Phyllis Stakey, Vice-Chairman	Massena, Iowa	2016
Leanne Pellett, Secretary and Treasurer	Atlantic, Iowa	2014
John Molgaard	Atlantic, Iowa	2016
Lois Casey	Atlantic, Iowa	2012
Jerry Putnam	Griswold, Iowa	2014
Ned Brown	Atlantic, Iowa	2014
<u>Administrator/CEO:</u>		
Patricia A. Markham	Atlantic, Iowa	
<u>Assistant Administrator/CFO:</u>		
Stephen Lewis	Atlantic, Iowa	

# Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Cass County Memorial Hospital  
Atlantic, Iowa

We have audited the accompanying balance sheets of Cass County Memorial Hospital as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements do not include financial data for the Hospital's legally separate component units, Cass County Memorial Hospital Foundation and Cass County Medical Clinics, Inc. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Hospital unless the Hospital also issues financial statements for the financial reporting entity that include the financial data for its component units. The Hospital has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component units would have been presented as summarized in Note A.

In our opinion, because of the omission of the discretely presented component units, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the Hospital, as of June 30, 2012 and 2011, or the changes in financial position and cash flows thereof for the years then ended.

To the Board of Trustees  
Cass County Memorial Hospital

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cass County Memorial Hospital as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2012 on our consideration of Cass County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 4 through 4d and on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cass County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (which are not presented herein) and expressed qualified opinions on those financial statements. The supplementary information on pages 1 and 27 through 43 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*G. Meredith, Ben, Kuhn + W.P.C.*

Atlantic, Iowa  
October 14, 2012



PATRICIA MARKHAM  
Administrator

# Cass County Memorial Hospital

1501 East 10th Street

Atlantic, Iowa 50022

712-243-3250

## CASS COUNTY MEMORIAL HOSPITAL Atlantic, Iowa Management's Discussion and Analysis

Management's discussion and analysis of the Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2012, 2011, and 2010. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

The major difference in financial activity from FY 2012 and FY 2011 is due to an increase in utilization, decreased contractual adjustments, Federal Interest Subsidy, and an increase in Retail Pharmacy through the 340B program. The Hospital is a Critical Access Hospital and the Clinics are Provider Based Rural Health Clinics, thus the Hospital and the Rural Health Clinics receive "cost based" reimbursement from Medicare and Medicaid.

The Hospital issued debt of \$23.5 million for the 2010 addition and remodeling of new inpatient, emergency room, rehab and surgical areas. The addition was completed at the end of June, 2012 and the remodeling started the first of July, 2012.

### **USING THIS ANNUAL REPORT**

The Hospital's financial statements consist of three statements – Balance Sheet; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

Statistical Analysis gives us an indication of Hospital utilization in certain areas. As with most rural hospitals, Cass County Memorial Hospital has seen a continued shift from "Inpatient utilization" to "Outpatient utilization." Thus, more procedures are done on an outpatient basis due to improved technology.

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets help us understand if the Hospital as a whole is better or worse off as a result of this year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Both statements report the Hospital's net assets and changes in them. The change in net assets is a measure of the Hospital's "financial health," but you will need to consider other "nonfinancial" factors such as changes in the Hospital's patient base, measures in the quality of service, and local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities.

## **STATISTICAL ANALYSIS**

The Hospital experienced increased utilization in Acute Care (9.7%), Skilled Care (12.9%), Behavioral Health Services (12.5%), Outpatient Occasions of Service (1%) and Rural Health Clinic Visits (5.9%) compared to FY 2011. Part if this increase is related to adding a new provider in November of 2011. An additional provider will be added in July of 2012. Decreased utilization occurred in Nursery (9.8%). This is summarized in Table 1.

**Table 1: Statistics**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Acute Care:			
Discharges	622	611	673
Patient Days	1,982	1,807	1,958
Skilled Care:			
Discharges	231	209	244
Patient Days	1,843	1,633	1,639
Behavior Health Unit:			
Discharges	214	274	255
Patient Days	1,098	976	1,017
Nursery:			
Patient Days	268	297	249
Outpatient Occasions of Service	63,791	63,279	63,719
Rural Health Clinic Visits	40,969	38,672	39,384

## **BALANCE SHEET**

Net assets increased 13% from \$23,720,966 to \$26,842,083. Total Current Assets increased 29%. Cash increased 23% due to better reimbursement from the Medicare and Medicaid programs for the Rural Health Clinic. Net patient receivables increased 17% due to a computer upgrade in June. Current liabilities increased 41% due an increase in accounts payable (computer upgrade and construction payables), current maturities of long-term debt, and estimated third party payor settlements. Long term debt decreased 3%.

**Table 2: Assets, Liabilities, Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 20,293,387	\$ 15,674,283	\$ 12,980,643
Capital assets, net	29,298,988	13,400,851	9,313,124
Other noncurrent assets	<u>8,065,851</u>	<u>23,994,467</u>	<u>7,078,018</u>
Total assets	<u>\$ 57,658,226</u>	<u>\$ 53,069,601</u>	<u>\$ 29,371,785</u>
Liabilities:			
Long-term debt outstanding	\$ 23,027,305	\$ 23,819,026	\$ 529,706
Other current and noncurrent Liabilities	<u>7,788,838</u>	<u>5,529,609</u>	<u>5,753,333</u>
Total liabilities	<u>\$ 30,816,143</u>	<u>\$ 29,348,635</u>	<u>\$ 6,283,039</u>
Net Assets:			
Invested in capital assets, net of Related debt	\$ 9,770,515	\$ 7,921,152	\$ 8,290,880
Restricted	2,136,899	3,104,007	524,078
Unrestricted	<u>14,934,669</u>	<u>12,695,807</u>	<u>14,273,788</u>
Total net assets	<u>\$ 26,842,083</u>	<u>\$ 23,720,966</u>	<u>\$ 23,088,746</u>

**STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS**

Patient Service Revenue increased 4% from last fiscal year. Inpatient revenue increased 18%, Swing Bed increased 12%, Behavioral Health increased 2%, Outpatient increased 4% and the Rural Health Clinic increased 18%.

Contractual adjustments to Patient Service Revenue decreased 2% due to better reimbursement from government programs as a result of transitioning Home Care and Hospice. Adjustments for bad debt increased 5%, uncompensated care decreased 31% and Rural Health Clinic adjustments decreased 9%.

Expenses increased 1%. Salary expense decreased 0.2%, employee benefits increased 6%, professional fees increased 7%, supplies and other expense decreased 2%, depreciation and amortization decreased 6%.

The Hospital had a net operating loss of \$233,282 compared to a net operating loss of \$2,200,815 in FY 2011. This is consistent with the Hospital's operating history. In 1966, when operations began as a county hospital, it was agreed that a portion of its cost would be subsidized by property tax revenues, making the facility more affordable for the county's lower income residents. Nonoperating revenue (which includes County tax support) increased by 19% due to receiving a federal interest subsidy to help pay interest expense on the bond issue, an increase in county tax revenue due to an increase in property valuation, and entering into the 340b Pharmacy program with Atlantic Medical Center and Rex Pharmacies. The excess of revenue over expense increased from \$632,220 to \$3,121,117.



**Table 3: Revenues, Expenses & Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:			
Patient service revenue	\$ 46,792,586	\$ 44,871,636	\$ 44,929,206
Adjustments to patient service revenue	( 16,582,150)	( 16,961,710)	( 15,406,862)
Net patient service revenue	30,210,436	27,909,926	29,522,344
Other operating revenue	758,766	844,730	1,142,048
Total operating revenues	30,969,202	28,754,656	30,664,392
Operating Expenses:			
Salaries	13,976,127	14,009,973	15,358,592
Employee benefits	4,440,091	4,179,944	4,261,693
Professional fees	3,792,351	3,543,128	3,034,766
Supplies and other expense	7,478,356	7,617,056	7,654,377
Depreciation	1,494,205	1,594,741	1,528,312
Amortization	21,354	10,629	1,189
Total operating expenses	31,202,484	30,955,471	31,838,929
Operating loss	( 233,282)	( 2,200,815)	( 1,174,537)
Nonoperating Revenue and Expense:			
Property taxes	1,963,859	1,956,971	1,775,414
Other Nonoperating revenue and Expense	1,390,540	876,064	174,880
Total Nonoperating revenue And expense	3,354,399	2,833,035	1,950,294
Excess of Revenues Over Expenses	3,121,117	632,220	775,757
Net Assets Beginning of Year	23,720,966	23,088,746	22,312,989
Net Assets End of Year	<u>\$ 26,842,083</u>	<u>\$ 23,720,966</u>	<u>\$ 23,088,746</u>

**STATEMENT OF CASH FLOWS**

Changes in the Hospital's cash flows are consistent with changes in operating losses and non operating revenues and expenses, discussed earlier. The Hospital received cash from patient and third party payors of \$29,096,422 along with other revenue of \$747,726. Cash paid out to suppliers was \$15,139,968 and employees was \$13,767,866. Net cash provided by operating activities was a positive \$936,314 compared to \$173,747 in FY 2011.

The net increase in cash and cash equivalents was \$1,546,606 which included an increase in capital expenditures for the construction project, an increase in designated and restricted assets plus a positive net gain in Retail Pharmacy income.

## **BUDGETARY HIGHLIGHTS**

The official county budget of the Hospital for the year ended June 30, 2012 was prepared on a modified accrual basis. Revenue was 6% below budget and expense was 14% below budget. There was no amendment made to the county budget for the fiscal year.

## **CAPITAL ASSETS**

At the end of FY 2012, the Hospital had \$29,298,988 invested in capital assets, net of accumulation depreciation. In FY 2012 the Hospital had capital additions costing \$17,533,235. The Hospital construction in progress was \$986,722 for the addition and renovation project.

## **DEBT**

The Hospital has five capital leases for the purchase of equipment. These leases carry interest rates of 1.45% to 20.34% and mature from October, 2012 to January, 2014.

The Hospital issued \$6,780,000 of Hospital Revenue Bonds (Series 2010A) in December, 2010 to pay the cost of expansion and renovation of the Hospital. These bonds are payable from revenues of the Hospital and final payment is due June, 2035. Interest rate of 7.25% is due semi annually.

The Hospital issued \$16,720,000 of Hospital Revenue Bonds (Series 2010B) in December, 2010 to pay the cost of expansion and renovation of the Hospital. These bonds are payable from revenues of the Hospital. The bonds mature in annual installments beginning in June, 2013 through June, 2026 and installments due June, 2028 and June, 2033, with an interest rate of 2.6% - 10.0%. The Hospital is eligible to receive a 45% subsidy of interest paid from the Federal Government each year for these bonds.

Under the terms of the Series 2010 bonds the Hospital is required to maintain certain deposits with a bank. The terms of the bonds also places limits on the incurrence of additional debt and requires the Hospital to satisfy certain measures of financial performance, Debt Service Ratio of 1.25 or greater and maintain greater than 60 days cash on hand as long as the bonds are outstanding starting in 2013.

Total Long Term Debt and Capital Leases outstanding at the end of FY 2012 totaled \$23,900,247.

## **CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact administration at Cass County Memorial Hospital, Atlantic, Iowa 50022.

CASS COUNTY MEMORIAL HOSPITAL  
Balance Sheets  
June 30,

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 8,915,658	\$ 7,256,381
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,953,000 in 2012, \$2,012,000 in 2011)	4,767,569	4,067,652
Other receivables	1,534,699	872,088
Inventory	450,895	520,233
Prepaid expense	550,649	521,870
Succeeding year property tax receivable	2,013,000	1,950,000
Internally designated assets	<u>2,060,917</u>	<u>486,059</u>
Total current assets	20,293,387	15,674,283
Designated and Restricted Assets:		
Internally designated assets	1,383,794	1,421,312
Restricted assets	<u>7,236,615</u>	<u>21,653,606</u>
	8,620,409	23,074,918
Less amounts required to meet current liabilities	<u>2,060,917</u>	<u>486,059</u>
	6,559,492	22,588,859
Capital Assets:		
Depreciable capital assets, net	27,857,743	7,932,546
Non-depreciable capital assets	<u>1,441,245</u>	<u>5,468,305</u>
	29,298,988	13,400,851
Investment in Cass County Medical Clinics, Inc.	277,514	338,817
Debt Issue Costs	460,033	418,514
Other Noncurrent Assets	<u>768,812</u>	<u>648,277</u>
Total assets	<u>\$ 57,658,226</u>	<u>\$ 53,069,601</u>

The accompanying notes are an integral part of these statements.

## LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 872,942	\$ 241,129
Accounts payable	1,586,575	616,749
Accrued employee compensation	1,748,870	1,540,609
Payroll taxes withheld and accrued	446,999	364,395
Accrued interest payable	144,452	142,727
Other current liabilities	225,000	225,000
Estimated third-party payor settlements	751,000	449,000
Deferred revenue for succeeding year property tax receivable	<u>2,013,000</u>	<u>1,950,000</u>
Total current liabilities	7,788,838	5,529,609
Long-Term Debt:		
Capital lease obligations, less current maturities	197,305	319,026
Bonds payable, less current maturities	<u>22,830,000</u>	<u>23,500,000</u>
Total long-term debt	<u>23,027,305</u>	<u>23,819,026</u>
Total liabilities	30,816,143	29,348,635
Net Assets:		
Invested in capital assets, net of related debt	9,770,515	7,921,152
Restricted - expendable	2,136,899	3,104,007
Unrestricted	<u>14,934,669</u>	<u>12,695,807</u>
	<u>26,842,083</u>	<u>23,720,966</u>
 Total liabilities and net assets	 <u>\$ 57,658,226</u>	 <u>\$ 53,069,601</u>

CASS COUNTY MEMORIAL HOSPITAL  
Statements of Revenues, Expenses and Changes in Net Assets  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Revenues:		
Net patient service revenue	\$ 30,210,436	\$ 27,909,926
Other revenue	<u>758,766</u>	<u>844,730</u>
Total revenue	30,969,202	28,754,656
Expenses:		
Nursing service	6,469,867	5,976,818
Other professional service	12,282,711	12,993,799
General service	2,391,221	2,302,518
Fiscal and administrative service	8,543,126	8,076,966
Provision for depreciation	1,494,205	1,594,741
Amortization	<u>21,354</u>	<u>10,629</u>
Total expenses	<u>31,202,484</u>	<u>30,955,471</u>
Operating Loss	( 233,282)	( 2,200,815)
Non-Operating Revenues (Expenses):		
County taxes	1,963,859	1,956,971
Home health care county revenue	--	32,667
Investment income	179,259	297,274
Federal interest subsidy	548,130	296,904
Medical office building rent, net	52,868	65,269
Southwest Iowa Mental Health Center services, net	( 13,960)	( 28,887)
Retail pharmacy income (loss), net	471,990	( 11,725)
Other rental income, net	66,395	167,470
Interest expense	( 38,728)	( 61,536)
Gain on disposal of assets	<u>39,470</u>	<u>31,720</u>
Non-operating revenue, net	<u>3,269,283</u>	<u>2,746,127</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	3,036,001	545,312
Capital Grants and Contributions	<u>85,116</u>	<u>86,908</u>
Excess of Revenues Over Expenses and Increase in Net Assets	3,121,117	632,220
Net Assets Beginning of Year	<u>23,720,966</u>	<u>23,088,746</u>
Net Assets End of Year	<u>\$ 26,842,083</u>	<u>\$ 23,720,966</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 29,096,422	\$ 28,692,565
Cash paid to suppliers	( 15,139,968)	( 15,301,570)
Cash paid to employees	( 13,767,866)	( 14,050,933)
Other revenue	<u>747,726</u>	<u>833,685</u>
Net cash provided by operating activities	936,314	173,747
Cash flows from noncapital financing activities:		
County tax revenue	1,963,859	1,989,638
Cash flows from capital and related financing activities:		
Capital expenditures	( 14,069,283)	( 3,506,948)
Computer system expenditures	( 855,468)	( 1,108,934)
Capital grants and contributions	85,116	86,908
Proceeds from disposal of assets	53,779	31,720
Proceeds from issuance of debt	--	23,265,000
Principal paid on long-term debt	( 260,181)	( 486,786)
Debt issue costs incurred	( 62,873)	( 193,589)
Interest paid	( 1,746,621)	( 839,019)
Federal interest subsidy received	<u>548,130</u>	<u>296,904</u>
Net cash provided by (used in) capital and related financing activities	( 16,307,401)	17,545,256
Cash flows from investing activities:		
Investment income	178,262	432,881
Investment in Cass County Medical Clinics, Inc.	( 118,697)	( 94,477)
Increase (decrease) in designated and restricted assets	14,353,875	( 15,623,341)
Rental income, net	179,777	291,088
Southwest Iowa Mental Health Center services, net	39,526	15,767
Retail pharmacy income (loss), net	471,990	( 11,725)
Change in other noncurrent assets	<u>( 150,899)</u>	<u>( 7,855)</u>
Net cash provided by (used in) investing activities	<u>14,953,834</u>	<u>( 14,997,662)</u>
Net increase in cash and cash equivalents	1,546,606	4,710,979
Cash and cash equivalents at beginning of year	<u>10,874,236</u>	<u>6,163,257</u>
Cash and cash equivalents at end of year	<u>\$ 12,420,842</u>	<u>\$ 10,874,236</u>

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 8,915,658	\$ 7,256,381
Cash and cash equivalents in designated and restricted assets	<u>3,505,184</u>	<u>3,617,855</u>
	<u>\$ 12,420,842</u>	<u>\$ 10,874,236</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 233,282)	\$( 2,200,815)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	1,494,205	1,594,741
Amortization	51,718	30,969
Write-off CCMC investment	180,000	180,000
Expense computer system project	71,418	70,644
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	( 11,040)	( 11,045)
Change in assets and liabilities		
Accounts receivable	( 1,416,014)	993,639
Inventory	69,338	52,235
Prepaid expense	( 28,779)	( 71,907)
Accounts payable, trade	165,885	( 252,975)
Accrued employee compensation	208,261	( 40,960)
Payroll taxes withheld and accrued	82,604	( 9,779)
Estimated third-party payor settlements	302,000	( 211,000)
Other current liabilities	--	50,000
Total adjustments	<u>1,169,596</u>	<u>2,374,562</u>
Net cash provided by operating activities	<u>\$ 936,314</u>	<u>\$ 173,747</u>

Non-Cash Transactions:

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2012</u>	<u>2011</u>
Book value of equipment traded	<u>\$ --</u>	<u>\$ 9,015</u>
Equipment purchased through capital leases	<u>\$ 100,273</u>	<u>\$ 50,137</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has two component units. Cass County Medical Clinics, Inc. (CCMC) is a component unit because three out of five board members are also board members of the Hospital, and the Cass County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. The Hospital has elected to exclude the financial information of its component units from these financial statements.

Following is a summary of the approximate assets, liabilities, net assets, revenues, and expenses of the aggregate component units if they were discretely presented as of and for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets	\$ <u>1,411,000</u>	\$ <u>1,340,000</u>
Liabilities	\$ <u>721,000</u>	\$ <u>675,000</u>
Net Assets	\$ <u>690,000</u>	\$ <u>665,000</u>
Revenues	\$ <u>3,798,000</u>	\$ <u>3,844,000</u>
Expenses	\$ <u>3,773,000</u>	\$ <u>3,375,000</u>

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.



CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market, except for general stores inventory which is valued at average cost.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of five years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest cost of \$1,709,618 was capitalized in 2012 (\$926,302 in 2011).

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 552 hours for full-time employees and 276 for part-time employees. Any excess over the maximum hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

16. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note J. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

CASS COUNTY MEMORIAL HOSPITAL  
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June 30, 2012 and 2011

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2010. The Medicaid cost reports have been audited through June 30, 2010. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Construction project	\$ 5,099,716	\$ 18,549,599
Interest on Series 2010 Bonds	293,201	1,241,400
Principal on Series 2010 Bonds	<u>1,843,698</u>	<u>1,862,607</u>
	<u>\$ 7,236,615</u>	<u>\$ 21,653,606</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2012 or 2011.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2012</u>	<u>2011</u>
Construction project	\$ 13,449,883	\$ 2,915,145
Interest on bonds	<u>967,108</u>	<u>532,349</u>
	<u>\$ 14,416,991</u>	<u>\$ 3,447,494</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE D - DESIGNATED NET ASSETS

Of the \$14,934,669 (\$12,695,807 as of June 30, 2011) of unrestricted net assets as of June 30, 2012, \$1,383,794 (\$1,421,312 for 2011) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	<u>2012</u>	<u>2011</u>
Capital acquisitions and payment of long-term debt	\$ 174,755	\$ 228,407
Operations	<u>1,209,039</u>	<u>1,192,905</u>
	<u>\$ 1,383,794</u>	<u>\$ 1,421,312</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2012</u>	<u>2011</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 12,394	\$ 78,084
Certificates of deposit	1,207,298	1,189,860
Donated stock	162,361	150,323
Interest receivable	<u>1,741</u>	<u>3,045</u>
	<u>\$ 1,383,794</u>	<u>\$ 1,421,312</u>
Restricted Assets:		
Cash and cash equivalents	\$ 3,492,790	\$ 3,539,771
U.S. government securities	3,698,738	17,949,827
Accrued interest	<u>45,087</u>	<u>164,008</u>
	<u>\$ 7,236,615</u>	<u>\$ 21,653,606</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 inputs were available for all investments at June 30, 2012 and 2011.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE F - FAIR VALUE MEASUREMENTS - Continued

*Level 1 Fair Value Measurements*

The fair value of the securities is based on quoted values of the shares held by the Hospital at year-end.

The following tables set forth, by level within the fair value hierarchy, the Hospital's investments at fair value as of June 30, 2012 and 2011:

		Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)
<u>June 30, 2012</u>	<u>Fair Value</u>	
Equity securities	\$ 162,361	\$ 162,361
U.S. government securities	<u>3,698,738</u>	<u>3,698,738</u>
	<u>\$ 3,861,099</u>	<u>\$ 3,861,099</u>
<u>June 30, 2011</u>		
Equity securities	\$ 150,323	\$ 150,323
U.S. government securities	<u>17,949,827</u>	<u>17,949,827</u>
	<u>\$ 18,100,150</u>	<u>\$ 18,100,150</u>

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Receivable from:		
Patients	\$ 3,341,632	\$ 2,454,072
Medicare	1,360,827	1,556,158
Medicaid	454,956	404,868
Blue Cross	714,305	689,922
Other commercial insurance carriers	521,924	858,315
Others	<u>326,925</u>	<u>116,317</u>
	6,720,569	6,079,652
Less allowances for doubtful accounts and contractual adjustments	<u>1,953,000</u>	<u>2,012,000</u>
	<u>\$ 4,767,569</u>	<u>\$ 4,067,652</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2012 and 2011 were as follows:

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 2,273,431	\$ 19,300	\$ 6,970	\$ 2,285,761
Buildings	7,172,536	18,184,821	--	25,357,357
Building Services Equipment	4,501,671	60,571	134,521	4,427,721
Medical Office Building	4,287,186	679,195	76,190	4,890,191
Fixed Equipment	2,620,605	36,604	29,515	2,627,694
Major Movable Equipment	12,252,365	2,493,764	33,063	14,713,066
Rural Health Clinic Equipment	<u>423,884</u>	<u>14,622</u>	<u>--</u>	<u>438,506</u>
	33,531,678	21,488,877	280,259	54,740,296
<u>Depreciation</u>				
Land Improvements	1,724,264	100,026	1,220	1,823,070
Buildings	5,047,079	313,496	--	5,360,575
Building Services Equipment	3,669,676	133,656	134,521	3,668,811
Medical Office Building	2,615,340	144,006	67,631	2,691,715
Fixed Equipment	2,429,078	46,416	29,515	2,445,979
Major Movable Equipment	9,704,643	806,945	33,063	10,478,525
Rural Health Clinic Equipment	<u>409,052</u>	<u>4,826</u>	<u>--</u>	<u>413,878</u>
Total Depreciation	<u>25,599,132</u>	<u>1,549,371</u>	<u>265,950</u>	<u>26,882,553</u>
Depreciable Capital Assets, Net	<u>\$ 7,932,546</u>	<u>\$ 19,939,506</u>	<u>\$ 14,309</u>	<u>\$ 27,857,743</u>
Construction in Progress	\$ 3,935,502	\$ 16,638,053	\$ 19,586,833	\$ 986,722
Computer System Projects	1,097,240	613,658	1,691,938	18,960
Land	<u>435,563</u>	<u>--</u>	<u>--</u>	<u>435,563</u>
Non-Depreciable Capital Assets	<u>\$ 5,468,305</u>	<u>\$ 17,251,711</u>	<u>\$ 21,278,771</u>	<u>\$ 1,441,245</u>



CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Land Improvements	\$ 2,259,261	\$ 14,170	\$ --	\$ 2,273,431
Buildings	7,172,536	--	--	7,172,536
Building Services Equipment	4,291,038	210,633	--	4,501,671
Medical Office Building	4,287,186	--	--	4,287,186
Fixed Equipment	2,665,814	--	45,209	2,620,605
Major Movable Equipment	11,653,331	1,010,284	411,250	12,252,365
Rural Health Clinic Equipment	<u>423,884</u>	<u>--</u>	<u>--</u>	<u>423,884</u>
	32,753,050	1,235,087	456,459	33,531,678
<u>Depreciation</u>				
Land Improvements	1,607,805	116,459	--	1,724,264
Buildings	4,810,866	236,213	--	5,047,079
Building Services Equipment	3,526,453	143,223	--	3,669,676
Medical Office Building	2,464,473	150,867	--	2,615,340
Fixed Equipment	2,396,441	74,833	42,196	2,429,078
Major Movable Equipment	9,186,806	923,085	405,248	9,704,643
Rural Health Clinic Equipment	<u>400,846</u>	<u>8,206</u>	<u>--</u>	<u>409,052</u>
Total Depreciation	<u>24,393,690</u>	<u>1,652,886</u>	<u>447,444</u>	<u>25,599,132</u>
Depreciable Capital Assets, Net	<u>\$ 8,359,360</u>	<u>\$ ( 417,799)</u>	<u>\$ 9,015</u>	<u>\$ 7,932,546</u>
Construction in Progress	\$ 182,859	\$ 3,780,160	\$ 27,517	\$ 3,935,502
Computer System Projects	335,342	1,353,864	591,966	1,097,240
Land	<u>435,563</u>	<u>--</u>	<u>--</u>	<u>435,563</u>
Non-Depreciable Capital Assets	<u>\$ 953,764</u>	<u>\$ 5,134,024</u>	<u>\$ 619,483</u>	<u>\$ 5,468,305</u>

The Hospital rents a portion of the medical office building. Depreciation expense related to the rented space was \$55,166 for the year ended June 30, 2012 (\$58,145 for 2011).

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE I - LEASES

Assets recorded under capital leases consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Medical Equipment	\$ 1,773,463	\$ 1,227,129
Less: Accumulated Amortization	<u>1,383,864</u>	<u>652,052</u>
Net Book Value	<u>\$ 389,599</u>	<u>\$ 575,077</u>

NOTE J - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2012 and 2011 follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Long-Term Debt:					
Bonds payable, Series 2010A	\$ 6,780,000	\$ --	\$ --	\$ 6,780,000	\$ --
Bonds payable, Series 2010B	<u>16,720,000</u>	<u>--</u>	<u>--</u>	<u>16,720,000</u>	<u>670,000</u>
Total Long-Term Debt	23,500,000	--	--	23,500,000	670,000
Capital Lease Obligations	<u>560,155</u>	<u>100,273</u>	<u>260,181</u>	<u>400,247</u>	<u>202,942</u>
Total Non-Current Liabilities	<u>\$ 24,060,155</u>	<u>\$ 100,273</u>	<u>\$ 260,181</u>	<u>\$ 23,900,247</u>	<u>\$ 872,942</u>
	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Long-Term Debt:					
Note payable, Series 2006	\$ 159,795	\$ --	\$ 159,795	\$ --	\$ --
Bonds payable, Series 2010A	--	6,780,000	--	6,780,000	--
Bonds payable, Series 2010B	--	16,720,000	--	16,720,000	--
Less unamortized refunding costs	<u>( 6,705)</u>	<u>--</u>	<u>( 6,705)</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	153,090	23,500,000	153,090	23,500,000	--
Capital Lease Obligations	<u>837,009</u>	<u>50,137</u>	<u>326,991</u>	<u>560,155</u>	<u>241,129</u>
Total Non-Current Liabilities	<u>\$ 990,099</u>	<u>\$ 23,550,137</u>	<u>\$ 480,081</u>	<u>\$ 24,060,155</u>	<u>\$ 241,129</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE J - NON-CURRENT LIABILITIES - Continued

Bonds Payable

The Hospital issued \$6,780,000 of Hospital Revenue Bonds, Series 2010A in December, 2010, to pay for the costs of expansion and renovation of the Hospital. The bonds are payable from the revenues of the Hospital. A lump sum payment of \$6,780,000 is due June 1, 2035. The interest rate is 7.25% and is due semi-annually.

The Hospital issued \$16,720,000 of Hospital Revenue Bonds, Series 2010B in December, 2010, to pay for the costs of the expansion and renovation of the Hospital. The bonds are payable from the revenues of the Hospital. The bonds mature in annual installments beginning in June, 2013, through June, 2026, and installments due June, 2028 and June, 2033, with an interest rate of 2.6% - 10.0%. The Hospital is eligible to receive a 45% subsidy of interest paid from the Federal Government each year.

The annual debt service on the bonds is expected to require less than 40% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$1,710,000 and \$4,448,000 respectively.

Under the terms of the bonds, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The bonds also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Capital Leases

The Hospital has entered into five capital leases for the purchase of equipment. The leases carry interest rates of 1.45% to 20.34%. The leases mature from October, 2012 to January, 2014.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year ending June 30,	Long-Term Debt		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 670,000	\$ 1,709,618	\$ 202,942	\$ 22,655	\$ 872,942	\$ 1,732,273
2014	680,000	1,692,197	197,305	4,837	877,305	1,697,034
2015	695,000	1,670,438	--	--	695,000	1,670,438
2016	710,000	1,642,637	--	--	710,000	1,642,637
2017	730,000	1,608,913	--	--	730,000	1,608,913
2018-2022	4,015,000	7,369,270	--	--	4,015,000	7,369,270
2023-2027	3,810,000	5,799,382	--	--	3,810,000	5,799,382
2028-2032	1,670,000	4,468,865	--	--	1,670,000	4,468,865
2033-2035	10,520,000	1,848,650	--	--	10,520,000	1,848,650
	<u>\$ 23,500,000</u>	<u>\$ 27,809,970</u>	<u>\$ 400,247</u>	<u>\$ 27,492</u>	<u>\$ 23,900,247</u>	<u>\$ 27,837,462</u>

CASS COUNTY MEMORIAL HOSPITAL  
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June 30, 2012 and 2011

**NOTE K - PENSION AND RETIREMENT BENEFITS**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% (5.78% beginning July 1, 2012) of their annual salary and the Hospital is required to contribute 8.07% (8.67% beginning July 1, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were approximately \$1,176,400, \$1,008,600, and \$1,058,300, respectively, equal to the required contributions for each year.

**NOTE L - DEFERRED COMPENSATION PLAN**

The Hospital offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows Hospital employees to defer a portion of their current salary until future years. The Hospital matches a portion of employee contributions to the employees' accounts. The Hospital's contribution expense totaled approximately \$220,600 and \$195,800 for the years ended June 30, 2012 and 2011, respectively. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting contractors to administer the Plan. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2012 was approximately \$9,958,000 (\$9,634,000 at June 30, 2011). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE M - RELATED PARTIES

Southwest Iowa Mental Health Center

The Hospital has entered into a sharing agreement with Southwest Iowa Mental Health Center, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, all non-physician personnel became employees of the Hospital. The Mental Health Center agreed to purchase all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits being passed through to the Center. The Hospital agreed to purchase all mental health physician services necessary for its inpatient operation from the Center.

The Hospital has agreed to provide operating capital and fund operating deficits of the Center. During the year ended June 30, 2012, the Hospital provided \$50,000 (\$50,000 in 2011) of operating capital. The Center had net loss in 2012 of \$103,486 (\$94,654 in 2011) without the Hospital's funding.

Below is a summary of the activity and amounts due under the agreement with the Mental Health Center as of June 30:

	<u>2012</u>	<u>2011</u>
Hospital expense to Mental Health Center for physicians	<u>\$ 287,853</u>	<u>\$ 262,198</u>
Support and net deficit funding from Hospital to Mental Health Center	<u>\$ 203,421</u>	<u>\$ 178,599</u>
Hospital revenue for Mental Health Center personnel costs and insurance	<u>\$ 1,102,641</u>	<u>\$ 956,235</u>
Owed to Hospital by the Mental Health Center	<u>\$ 646,569</u>	<u>\$ 580,750</u>

The financial arrangements for the 2012-2013 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$344,600, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$1,015,300 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Myrtue Medical Center of Harlan and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other services from the organization.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE M - RELATED PARTIES - Continued

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2012</u>	<u>2011</u>
Services purchased from HPSI	\$ <u>109,077</u>	\$ <u>107,365</u>
Services and supplies provided to HPSI	\$ <u>150,528</u>	\$ <u>143,685</u>
Amount due from HPSI	\$ <u>126,161</u>	\$ <u>84,711</u>
Member share of net assets	\$ <u>427,814</u>	\$ <u>387,037</u>

The member share of net assets is included in other noncurrent assets and the amount due from HPSI is included in other receivables on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the Office of the State Auditor.

Cass County Memorial Hospital Foundation

Cass County Memorial Hospital Foundation is a separate not-for-profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2012, contributions received from this organization were approximately \$49,000 (\$42,000 for 2011).

NOTE N - CASS COUNTY MEDICAL CLINICS

The Hospital and local physicians developed a not-for-profit corporation, Cass County Medical Clinics, Inc. (CCMC), to operate three local medical practices (Atlantic Medical Center, Eye Associates and Southwest Iowa Surgery). CCMC leases medical office space, and purchases medical services and supplies from the Hospital. CCMC also purchases health insurance coverage through the Hospital's self-funded group health insurance plan. The Hospital provided start up and operating capital to CCMC over several years, for the benefit of the community. During the year ended June 30, 2012, the Hospital recorded an allowance of \$180,000 against the advances (\$180,000 for 2011). The operations of CCMC are managed by the Hospital and physicians. The Hospital has pledged to support CCMC as may be necessary in the future.

The Hospital contracts with the physicians of CCMC-Atlantic Medical Center for the operation of its four rural health clinics. The Hospital purchases the physician services based on a budgeted amount, set prior to the start of each year. After the completion of the year, an analysis is prepared to determine any net settlement.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE N - CASS COUNTY MEDICAL CLINICS - Continued

Transactions between the Hospital and CCMC are listed below:

	<u>2012</u>	<u>2011</u>
<u>CCMC purchases from Hospital</u>		
Rent of medical office space	\$ 65,274	\$ 65,274
Medical services, insurance, and other expenses	107,699	104,556
Health insurance	<u>221,989</u>	<u>188,986</u>
	<u>\$ 394,962</u>	<u>\$ 358,816</u>
 <u>Hospital purchases from CCMC</u>		
Physician services	<u>\$ 1,965,000</u>	<u>\$ 1,816,999</u>

Following is a schedule of the investment in CCMC as of June 30:

	<u>2012</u>	<u>2011</u>
Purchases of physician practices	\$ 84,944	\$ 84,944
Advances of operating capital, and unpaid rent and insurance	<u>192,570</u>	<u>253,873</u>
	<u>\$ 277,514</u>	<u>\$ 338,817</u>

NOTE O - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

The Hospital has established an employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. The estimated amount of unpaid claims at June 30, 2012 is \$225,000 (\$225,000 at June 30, 2011), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2012, the Hospital incurred costs of \$986,722 for renovations to the existing facility. The total estimated cost of the project is \$5 million. Funds for this project are being obtained by the issuance of the 2010 Series Bonds and use of internally generated funds.

Computer System Project and Equipment

As of June 30, 2012, the Hospital incurred fees of \$18,960 for various computer hardware and software applications, and equipment that had not been completed and placed in service. No commitment exists at June 30, 2012.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2012 and 2011

NOTE O - COMMITMENTS AND CONTINGENCIES - Continued

Notes Receivable

Reported as part of other noncurrent assets on the balance sheets are notes receivable with a balance of \$118,097 as of June 30, 2012 (\$36,000 as of June 30, 2011). The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees. There are 225 active employees and 4 retirees currently covered by the plan.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Cass County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Subsequent Events

The Hospital has evaluated all subsequent events through October 14, 2012, the date the financial statements were available to be issued.

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## REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL  
Budgetary Comparison Schedule  
Year Ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for interest, plant and equipment purchases, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,963,859	\$ --	\$ 1,963,859
Other revenues	32,456,424	--	32,456,424
Transfers in (out)	<u>967,108</u>	<u>( 967,108)</u>	<u>--</u>
	35,387,391	( 967,108)	34,420,283
Expenses	<u>31,299,166</u>	<u>--</u>	<u>31,299,166</u>
Net	4,088,225	( 967,108)	3,121,117
Balance beginning of year	<u>20,616,959</u>	<u>3,104,007</u>	<u>23,720,966</u>
Balance end of year	<u>\$ 24,705,184</u>	<u>\$ 2,136,899</u>	<u>\$ 26,842,083</u>

  

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,963,859	\$ --	\$ 1,963,859	\$ 1,852,783
Other revenues	<u>32,456,424</u>	<u>38,728</u>	<u>32,495,152</u>	<u>34,677,981</u>
	34,420,283	38,728	34,459,011	36,530,764
Expenses	<u>31,299,166</u>	<u>16,673,097</u>	<u>47,972,263</u>	<u>55,914,761</u>
Net	3,121,117	( 16,634,369)	( 13,513,252)	( 19,383,997)
Balance beginning of year	<u>23,720,966</u>	<u>6,538,743</u>	<u>30,259,709</u>	<u>30,259,709</u>
Balance end of year	<u>\$ 26,842,083</u>	<u>\$( 10,095,626)</u>	<u>\$ 16,746,457</u>	<u>\$ 10,875,712</u>

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,434,592	21.4%	\$ 1,421,240	23.4%
31 - 60	1,140,301	17.0	599,385	9.9
61 - 90	411,439	6.1	293,879	4.8
91 - 120	295,501	4.4	314,963	5.2
121 and over	667,409	9.9	851,191	14.0
	<u>3,949,242</u>	<u>58.8</u>	<u>3,480,658</u>	<u>57.3</u>
In hospital	1,856,563	27.6	1,550,654	25.5
Total hospital	<u>5,805,805</u>	<u>86.4</u>	<u>5,031,312</u>	<u>82.8</u>
Rural Health Clinic	914,764	13.6	1,048,340	17.2
	<u>6,720,569</u>	<u>100.0%</u>	<u>6,079,652</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts - hospital	327,000	453,000
Allowance for doubtful accounts - RHC	320,000	354,000
Allowance for contractual adjustments - hospital	<u>1,306,000</u>	<u>1,205,000</u>
	<u>\$ 4,767,569</u>	<u>\$ 4,067,652</u>

Hospital Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Balance, beginning	\$ 453,000	\$ 480,000
Provision for bad debts	2,442,013	2,319,716
Recoveries of accounts previously written off	<u>370,578</u>	<u>428,834</u>
	<u>3,265,591</u>	<u>3,228,550</u>
Accounts written off	<u>2,938,591</u>	<u>2,775,550</u>
Balance, ending	<u>\$ 327,000</u>	<u>\$ 453,000</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Other Receivables/Inventory/Prepaid Expense  
June 30,

	<u>2012</u>	<u>2011</u>
<u>Other Receivables</u>		
Shared services	\$ 63,143	\$ 118,614
Health Partners of Southwest Iowa	126,161	84,711
Lifeline	19,925	12,994
Southwest Iowa Mental Health Center	646,569	580,750
Other	<u>678,901</u>	<u>75,019</u>
	<u>\$ 1,534,699</u>	<u>\$ 872,088</u>
 <u>Inventory</u>		
General stores	\$ 48,012	\$ 50,009
Pharmacy	299,164	348,749
Radiology	--	9,432
Laboratory	74,208	70,682
Rural Health Clinic	15,000	15,000
Dietary	6,399	6,649
Fuel oil	8,112	9,776
Information system	<u>--</u>	<u>9,936</u>
	<u>\$ 450,895</u>	<u>\$ 520,233</u>
 <u>Prepaid Expense</u>		
Dues	\$ 18,144	\$ 18,156
Insurance	63,717	82,418
Maintenance agreements and other	<u>468,788</u>	<u>421,296</u>
	<u>\$ 550,649</u>	<u>\$ 521,870</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Daily Patient Services:		
Medical and surgical	\$ 1,872,896	\$ 1,577,648
Obstetric	214,071	229,818
Intensive care	625,303	766,188
Nursery	126,672	140,050
Psychiatric services	<u>2,011,144</u>	<u>1,949,615</u>
	4,850,086	4,663,319
Other Nursing Services:		
Operating room	4,037,379	2,458,710
Recovery room	568,561	324,900
Delivery and labor rooms	238,283	148,535
Central services and supply	2,839,639	2,471,043
Intravenous therapy	307,053	305,676
Emergency service	2,981,213	3,612,750
Oncology service	293,538	270,069
Enterstomal therapy	<u>131,317</u>	<u>110,747</u>
	11,396,983	9,702,430
Other Professional Services:		
Laboratory	6,512,487	6,233,638
Blood bank	89,449	88,651
Electrocardiology	204,757	188,328
Cardiac stress testing	110,472	111,174
Ambulatory electrocardiology	109,935	84,752
Radiology	2,265,893	2,095,502
CT scanning	2,808,819	3,055,309
MRI scanning	1,357,462	1,172,197
Nuclear medicine and ultrasound	1,326,136	1,318,824
Pharmacy	4,554,247	5,257,056
Anesthesia	1,480,157	1,168,035
Respiratory care	1,240,222	1,297,868
Physical therapy	1,340,905	1,098,138
Speech therapy	180,615	148,781
Occupational therapy	319,927	281,294
Home Health Care	--	613,398
Hospice	--	616,862
Cardiac rehabilitation	192,773	158,010
Diabetic center	53,028	59,294
Sleep study	172,370	176,294
Rural Health Clinics	<u>6,225,863</u>	<u>5,282,482</u>
	<u>30,545,517</u>	<u>30,505,887</u>
	<u>\$ 46,792,586</u>	<u>\$ 44,871,636</u>

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CASS COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue - Continued  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
SUMMARY		
Inpatient	\$ 5,807,177	\$ 4,929,805
Swing Bed	2,452,639	2,198,442
Psychiatric Services	2,317,844	2,267,199
Outpatient	29,989,063	28,963,448
Home Health Care	--	613,398
Hospice	--	616,862
Rural Health Clinics	<u>6,225,863</u>	<u>5,282,482</u>
	<u>\$ 46,792,586</u>	<u>\$ 44,871,636</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 46,792,586	\$ 44,871,636
Contractual adjustments - hospital	( 12,929,823)	( 13,229,716)
Provision for bad debts - hospital	( 2,442,013)	( 2,319,716)
Provision for contractual adjustments and bad debts - RHC	( 969,192)	( 1,063,172)
Uncompensated care	<u>( 241,122)</u>	<u>( 349,106)</u>
	<u>\$ 30,210,436</u>	<u>\$ 27,909,926</u>
Other Revenue:		
Interest income on operating funds	\$ 11,040	\$ 11,045
Meals sold to employees and guests	202,227	196,173
Meals on wheels	50,477	52,570
Visiting physician clinic rent	198,618	209,252
Operating grants	172,911	222,303
Medical record transcripts	1,517	1,882
VHA participation	6,163	25,312
Biomedical service	31,986	30,809
Nursing education	5,040	2,975
Other	<u>78,787</u>	<u>92,409</u>
	<u>\$ 758,766</u>	<u>\$ 844,730</u>

See Independent Auditor's Report.



CASS COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Nursing Administration:		
Salaries and wages	\$ 172,607	\$ 129,629
Supplies and other expense	<u>4,075</u>	<u>3,706</u>
	176,682	133,335
In-Service Training:		
Salaries and wages	69,964	50,809
Supplies and other expense	<u>37,770</u>	<u>31,427</u>
	107,734	82,236
Quality Assurance:		
Salaries and wages	194,512	164,537
Supplies and other expense	<u>20,103</u>	<u>14,415</u>
	214,615	178,952
Nursing Supervision:		
Salaries and wages	271,862	263,827
Supplies and other expense	<u>11</u>	<u>313</u>
	271,873	264,140
Medical and Surgical:		
Salaries and wages	1,075,790	995,487
Supplies and other expense	<u>69,958</u>	<u>55,415</u>
	1,145,748	1,050,902
Psychiatric Services:		
Salaries and wages	857,462	840,054
Professional fees	287,853	262,198
Supplies and other expense	<u>14,219</u>	<u>15,377</u>
	1,159,534	1,117,629
Intensive Care:		
Salaries and wages	455,061	450,074
Supplies and other expense	<u>15,798</u>	<u>11,639</u>
	470,859	461,713
Obstetric:		
Salaries and wages	325,083	321,311
Supplies and other expense	<u>20,857</u>	<u>18,137</u>
	345,940	339,448
Nursery:		
Salaries and wages	156,798	148,420

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CASS COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Operating Room:		
Salaries and wages	\$ 507,263	\$ 463,298
Professional fees	21,345	8,810
Supplies and other expense	<u>157,047</u>	<u>122,958</u>
	685,655	595,066
Recovery Room:		
Salaries and wages	51,345	42,716
Delivery and Labor Rooms:		
Salaries and wages	68,857	65,075
Central Services and Supply:		
Salaries and wages	49,120	57,296
Supplies sold to patients	551,766	548,744
Supplies and other expense	<u>16,517</u>	<u>4,940</u>
	617,403	610,980
Intravenous Therapy:		
Solutions	9,442	9,791
Supplies and other expense	<u>69,967</u>	<u>66,421</u>
	79,409	76,212
Emergency Room:		
Salaries and wages	432,109	324,234
Supplies and other expense	<u>35,216</u>	<u>31,453</u>
	467,325	355,687
Outpatient Clinics:		
Salaries and wages	410,431	429,901
Supplies and other expense	<u>39,659</u>	<u>24,406</u>
	450,090	454,307
	<u>\$ 6,469,867</u>	<u>\$ 5,976,818</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Emergency Room Physicians:		
Salaries and wages	\$ 272,856	\$ 297,869
Professional fees	<u>320,080</u>	<u>339,805</u>
	592,936	637,674
Laboratory:		
Salaries and wages	744,238	768,100
Professional fees	372,698	342,321
Supplies and other expense	280,924	251,121
Cost of chemistry reagents	<u>311,311</u>	<u>310,140</u>
	1,709,171	1,671,682
Blood Bank:		
Cost of blood	126,049	123,473
Electrocardiology:		
Salaries and wages	9,431	8,859
Cardiac Stress Testing:		
Salaries and wages	4,763	4,712
Professional fees	672	756
Supplies and other expense	<u>2,339</u>	<u>2,800</u>
	7,774	8,268
Ambulatory Electrocardiology:		
Salaries and wages	8,691	7,085
Purchased services	7,050	8,200
Supplies and other expense	<u>331</u>	<u>356</u>
	16,072	15,641
Radiology:		
Salaries and wages	339,289	325,942
Professional fees	5,581	4,833
Cost of film	1,206	557
Supplies and other expense	<u>221,026</u>	<u>180,709</u>
	567,102	512,041
CT and MRI Scanning:		
Salaries and wages	78,274	89,037
Purchased services	157,179	151,901
Supplies and other expense	<u>134,391</u>	<u>135,901</u>
	369,844	376,839

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 91,444	\$ 87,782
Purchased services	110,934	104,604
Supplies and other expense	<u>24,892</u>	<u>19,770</u>
	227,270	212,156
Pharmacy:		
Salaries and wages	576,333	522,796
Drugs	1,301,821	1,399,834
Supplies and other expense	<u>68,263</u>	<u>57,899</u>
	1,946,417	1,980,529
Anesthesia:		
Salaries and wages	--	99,637
Professional fees	603,493	515,113
Supplies and other expense	<u>18,369</u>	<u>10,762</u>
	621,862	625,512
Respiratory Care:		
Salaries and wages	211,670	206,891
Oxygen	21,048	18,575
Supplies and other expense	<u>9,230</u>	<u>8,885</u>
	241,948	234,351
Physical Therapy:		
Salaries and wages	337,537	317,802
Professional fees	12,870	9,609
Supplies and other expense	<u>11,353</u>	<u>8,872</u>
	361,760	336,283
Occupational Therapy:		
Salaries and wages	105,456	97,684
Supplies and other expense	<u>10,458</u>	<u>36,458</u>
	115,914	134,142
Speech Therapy:		
Salaries and wages	56,938	58,803
Professional fees	2,968	1,091
Supplies and other expense	<u>1,721</u>	<u>1,141</u>
	61,627	61,035

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CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Home Health Care:		
Salaries and wages	\$       --	\$    549,812
Professional fees	--	220
Supplies and other expense	--	172,385
	<u>          --</u>	<u>         722,417</u>
Hospice:		
Salaries and wages	--	250,802
Professional fees	--	1,109
Supplies and other expense	--	249,383
	<u>          --</u>	<u>         501,294</u>
Cardiac Rehabilitation:		
Salaries and wages	150,112	137,243
Supplies and other expense	12,415	11,751
	<u>        162,527</u>	<u>        148,994</u>
Diabetic Center:		
Salaries and wages	106,276	100,430
Supplies and other expense	2,286	2,139
	<u>        108,562</u>	<u>        102,569</u>
Medical Records:		
Salaries and wages	351,044	312,558
Supplies and other expense	39,286	38,630
Microfilming services purchased	45,830	21,029
	<u>        436,160</u>	<u>        372,217</u>
Medical Education - Community Orientation Program:		
Supplies and other expense	5,920	740

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Utilization Review:		
Salaries and wages	\$ 193,280	\$ 186,373
Supplies and other expense	<u>22,260</u>	<u>5,227</u>
	215,540	191,600
Sleep Studies:		
Purchased services	77,125	77,800
Supplies and other expense	<u>--</u>	<u>69</u>
	77,125	77,869
Rural Health Clinic - Atlantic:		
Salaries and wages	1,678,881	1,533,979
Professional fees	1,891,973	1,724,934
Purchased services	97,471	68,104
Facility costs	48,061	61,439
Supplies and other expense	<u>233,702</u>	<u>187,883</u>
	3,950,088	3,576,339
Rural Health Clinic - Anita:		
Salaries and wages	75,940	62,712
Professional fees	30,024	32,373
Facility costs	19,763	20,006
Supplies and other expense	<u>9,828</u>	<u>8,921</u>
	135,555	124,012
Rural Health Clinic - Massena:		
Salaries and wages	49,673	42,093
Professional fees	28,118	29,710
Facility costs	6,123	5,383
Supplies and other expense	<u>12,377</u>	<u>11,411</u>
	96,291	88,597
Rural Health Clinic - Griswold:		
Salaries and wages	54,670	68,492
Professional fees	36,635	49,287
Facility costs	18,892	21,007
Supplies and other expense	<u>9,569</u>	<u>9,880</u>
	119,766	148,666
	<u>\$ 12,282,711</u>	<u>\$ 12,993,799</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
General Service Expenses  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Dietary:		
Salaries and wages	\$ 430,106	\$ 437,082
Food	221,312	207,457
Supplies and other expense	<u>48,584</u>	<u>54,227</u>
	700,002	698,766
Operation of Plant:		
Salaries and wages	354,562	335,087
Electricity	150,684	126,100
Natural gas and fuel oil	83,052	102,697
Water	38,222	29,674
Supplies and other expense	<u>218,480</u>	<u>238,151</u>
	845,000	831,709
Clinical Equipment:		
Contracted services	97,979	94,170
Supplies and other expense	<u>5,007</u>	<u>4,204</u>
	102,986	98,374
Housekeeping:		
Salaries and wages	350,389	301,488
Contracted management services	218,376	194,362
Supplies and other expense	<u>55,818</u>	<u>67,006</u>
	624,583	562,856
Laundry and Linen:		
Salaries and wages	34,846	33,248
Contracted management services	21,971	21,113
Supplies and other expense	60,390	54,723
Linens	<u>1,443</u>	<u>1,729</u>
	<u>118,650</u>	<u>110,813</u>
	<u>\$ 2,391,221</u>	<u>\$ 2,302,518</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Administrative Services:		
Salaries and wages	\$ 275,420	\$ 272,149
Dues and subscriptions	41,348	42,120
Legal publications and advertising	10,078	9,145
Consulting fees	137,239	178,428
Physician recruiting	206,061	324,620
Supplies and other expense	<u>194,103</u>	<u>80,284</u>
	864,249	906,746
Fiscal Services:		
Salaries and wages	349,515	347,270
Telephone	34,651	19,397
Freight and postage	16,590	17,379
Professional fees	39,970	32,590
Supplies and other expense	<u>111,192</u>	<u>103,513</u>
	551,918	520,149
Admissions:		
Salaries and wages	272,212	265,370
Supplies and other expense	<u>12,390</u>	<u>12,643</u>
	284,602	278,013
Credit and Collections:		
Salaries and wages	172,217	161,282
Supplies and other expense	86,609	85,726
Collection expense	<u>112,560</u>	<u>125,195</u>
	371,386	372,203
Information Systems:		
Salaries and wages	705,270	554,951
Professional fees	832	9,941
Supplies and other expense	<u>429,030</u>	<u>376,094</u>
	1,135,132	940,986
Human Resources:		
Salaries and wages	203,248	198,674
Supplies and other expense	<u>74,447</u>	<u>173,111</u>
	277,695	371,785
Public Relations:		
Salaries and wages	58,998	59,235
Supplies and other expense	<u>86,917</u>	<u>70,291</u>
	145,915	129,526
Purchasing:		
Salaries and wages	129,412	120,993
Supplies and other expense	<u>30,070</u>	<u>34,101</u>
	159,482	155,094

(continued next page)



CASS COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses - Continued  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Employee Welfare:		
Social Security tax	\$ 997,013	\$ 991,106
Iowa Public Employees' Retirement System	1,176,375	1,008,601
Group health insurance	1,783,399	1,675,454
Workers' compensation insurance	151,677	192,207
Deferred compensation	220,627	195,842
Other	<u>111,000</u>	<u>116,734</u>
	4,440,091	4,179,944
Insurance:		
Liability and property insurance	143,789	128,368
Wellness:		
Supplies and other expense	18,620	12,743
Compliance:		
Supplies and other expense	13,210	14,115
Customer Service:		
Salaries and wages	11,082	6,508
Supplies and other expense	<u>92,165</u>	<u>28,311</u>
	103,247	34,819
Foundation:		
Salaries and wages	<u>33,790</u>	<u>32,475</u>
	<u>\$ 8,543,126</u>	<u>\$ 8,076,966</u>

Summary of Expenses

Salaries and wages	\$ 13,976,127	\$ 14,009,973
Employee benefits	4,440,091	4,179,944
Professional fees	3,792,351	3,543,128
Supplies and other expense	<u>7,478,356</u>	<u>7,617,056</u>
	<u>\$ 29,686,925</u>	<u>\$ 29,350,101</u>

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acute Care:					
Admissions	620	611	670	1,023	1,059
Discharges	622	611	673	1,015	1,058
Patient Days	1,982	1,807	1,958	2,716	3,168
Average Length of Stay	3.19	2.96	2.91	2.68	2.99
Average Occupied Beds	5.4	5.0	5.4	7.4	8.7
Swing Bed:					
Admissions	229	208	247	339	340
Discharges	231	209	244	343	341
SNF Days	1,843	1,633	1,639	2,276	2,165
Average Occupied Beds	5.0	4.5	4.5	6.2	5.9
Skilled Nursing Facility:					
Admissions	--	--	--	9	4
Discharges	--	--	--	9	5
Patient Days	--	--	--	42	43
Combined Average Occupied Beds (Acute and Skilled)	10.4	9.5	9.9	13.8	14.7
Psychiatric Unit:					
Admissions	220	271	258	209	226
Discharges	214	274	255	214	227
Patient Days	1,098	976	1,017	1,187	1,118
Average Occupied Beds	3.0	2.7	2.8	3.3	3.1
Total Average Occupied Beds	13.4	12.2	12.7	17.0	17.7
Nursery Days	268	297	249	329	325
Outpatient Occasions of Service	63,791	63,279	63,719	63,797	61,527
Physician Clinic Visits	40,969	38,672	39,384	43,584	32,354

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 8,915,658	\$ 7,256,381
Patient receivables, net	4,767,569	4,067,652
Other receivables	1,534,699	872,088
Inventory	450,895	520,233
Prepaid expense	550,649	521,870
Succeeding year property tax receivable	2,013,000	1,950,000
Internally designated assets	<u>2,060,917</u>	<u>486,059</u>
Total current assets	20,293,387	15,674,283
Other Assets:		
Designated and restricted assets, net	6,559,492	22,588,859
Capital assets, net	29,298,988	13,400,851
Other noncurrent assets	<u>1,506,359</u>	<u>1,405,608</u>
Total other assets	<u>37,364,839</u>	<u>37,395,318</u>
	<u>\$ 57,658,226</u>	<u>\$ 53,069,601</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 872,942	\$ 241,129
Accounts payable	1,586,575	616,749
Accrued expenses	2,565,321	2,272,731
Estimated third-party payor settlements	751,000	449,000
Deferred revenue for succeeding year property tax receivable	<u>2,013,000</u>	<u>1,950,000</u>
Total current liabilities	7,788,838	5,529,609
Capital Lease Obligations, Net	197,305	319,026
Bonds Payable, Net	22,830,000	23,500,000
Net Assets	<u>26,842,083</u>	<u>23,720,966</u>
	<u>\$ 57,658,226</u>	<u>\$ 53,069,601</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 3,636,087	\$ 3,322,317	\$ 1,693,315
5,064,426	5,419,949	7,412,879
913,607	839,699	657,036
572,468	682,971	702,678
449,963	554,369	366,436
1,851,000	2,086,000	1,593,000
<u>493,092</u>	<u>562,833</u>	<u>615,523</u>
12,980,643	13,468,138	13,040,867
5,992,362	5,174,364	3,754,040
9,313,124	9,189,413	9,876,362
<u>1,085,656</u>	<u>1,057,152</u>	<u>924,536</u>
16,391,142	15,420,929	14,554,938
<u>\$ 29,371,785</u>	<u>\$ 28,889,067</u>	<u>\$ 27,595,805</u>
\$ 460,393	\$ 537,869	\$ 528,502
650,584	717,953	742,663
2,131,356	2,199,624	1,952,436
660,000	583,000	768,000
<u>1,851,000</u>	<u>2,086,000</u>	<u>1,593,000</u>
5,753,333	6,124,446	5,584,601
529,706	298,497	509,362
--	153,135	461,166
<u>23,088,746</u>	<u>22,312,989</u>	<u>21,040,676</u>
<u>\$ 29,371,785</u>	<u>\$ 28,889,067</u>	<u>\$ 27,595,805</u>

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Revenues and Expenses  
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Patient Service Revenue	\$ 46,792,586	\$ 44,871,636
Adjustments to Patient Service Revenue	<u>( 16,582,150)</u>	<u>( 16,961,710)</u>
Net Patient Service Revenue	30,210,436	27,909,926
Other Revenue	<u>758,766</u>	<u>844,730</u>
Total Revenue	30,969,202	28,754,656
Expenses	<u>31,202,484</u>	<u>30,955,471</u>
Operating Loss	( 233,282)	( 2,200,815)
Non-Operating Revenue, Net	3,269,283	2,746,127
Capital Grants and Contributions	<u>85,116</u>	<u>86,908</u>
Excess of Revenues Over Expenses	<u>\$ 3,121,117</u>	<u>\$ 632,220</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 44,929,206	\$ 47,217,240	\$ 44,042,242
( 15,406,862)	( 17,502,545)	( 16,348,067)
29,522,344	29,714,695	27,694,175
<u>1,142,048</u>	<u>1,109,490</u>	<u>970,419</u>
30,664,392	30,824,185	28,664,594
<u>31,838,929</u>	<u>31,698,666</u>	<u>28,826,601</u>
( 1,174,537)	( 874,481)	( 162,007)
1,865,380	2,082,108	1,896,297
<u>84,914</u>	<u>64,686</u>	<u>67,179</u>
<u>\$ 775,757</u>	<u>\$ 1,272,313</u>	<u>\$ 1,801,469</u>

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Cass County Memorial Hospital  
Atlantic, Iowa

We have audited the financial statements of Cass County Memorial Hospital as of and for the year ended June 30, 2012, and have issued our report thereon dated October 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Cass County Memorial Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Cass County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Cass County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.



To the Board of Trustees  
Cass County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cass County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cass County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Cass County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Emerald, Beu, Kuhn & Co. P.C.*

Atlantic, Iowa  
October 14, 2012

CASS COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2012

PART I - SIGNIFICANT DEFICIENCIES

12-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

PART II - REQUIRED STATUTORY REPORTING

12-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2012 did not exceed amounts budgeted.

12-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Employee Recreation Club	Employee holiday party	\$ 574

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

CASS COUNTY MEMORIAL HOSPITAL  
Schedule of Findings - Continued  
Year ended June 30, 2012

PART II - REQUIRED STATUTORY REPORTING - Continued

12-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

12-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

12-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

12-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

\* \* \*